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EX PARTE

March 21, 1995

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. Room 222
Washington, D.C. 20554

RE: In the Matter of Price Cap Performance Review for Local Exchange Carriers
CC Docket No. 94-1

Dear Mr. Caton:

Today representatives of Sprint Corporation met with Chairman Reed Hundt and Kathleen Wallman of the Common Carrier Bureau to discuss Sprint's position in the Price Cap docket. The attached describes the contents of the discussion.

Representing Sprint Corporation were Messrs. William T. Esrey, John R. Hoffman and Jay C. Keithley. Sprint requests that this information be made a part of the record in this matter. Two copies of this letter, in accordance with Section 1.1206(a)(1), is provided for this purpose. If you have any questions, please feel free to call.

Sincerely,

Jay C. Keithley

Attachment

cc: Chairman Hundt
Kathleen Wallman

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List ABCDE

Upfront Rate Reduction

- Equal to 1/2 of the difference between a LEC's 1991-1994 ROR and 11.25%

  - <u>Company specific</u> upfront reductions recognize each LEC's relative performance under first price cap plan

- Sharing of productivity gains from first price cap period

- Required of all price cap LECs (regardless of productivity choices under the second price cap plan)

- Approximately equal to a 2% upfront rate reduction industrywide

Productivity/Sharing Options

- Align productivity/sharing options to provide LECs incentive to elect progressively higher productivity offsets as their internal productivity increases

- Eliminate sharing/LFAM for LECs willing to opt for a high productivity factor

- LECs make an annual productivity election
  - But once a LEC opts for 4.5%/no sharing, no reversion to lower productivity factor

Proposed Productivity/Sharing Matrix

Productivity Selection	Initial Sharing Threshold	50/50 Sharing Range	100% Sharing Range	LFAM
3.3%	11.75%	11.75 - 13.75%	>13.75%	10.25%
3.9%	12.25%	12.25 - 15.25%	>15.25%	10.25%
4.5%	----------------	No Sharing/LFAM	-------------------	--------------------

Elimination of Sharing/LFAM

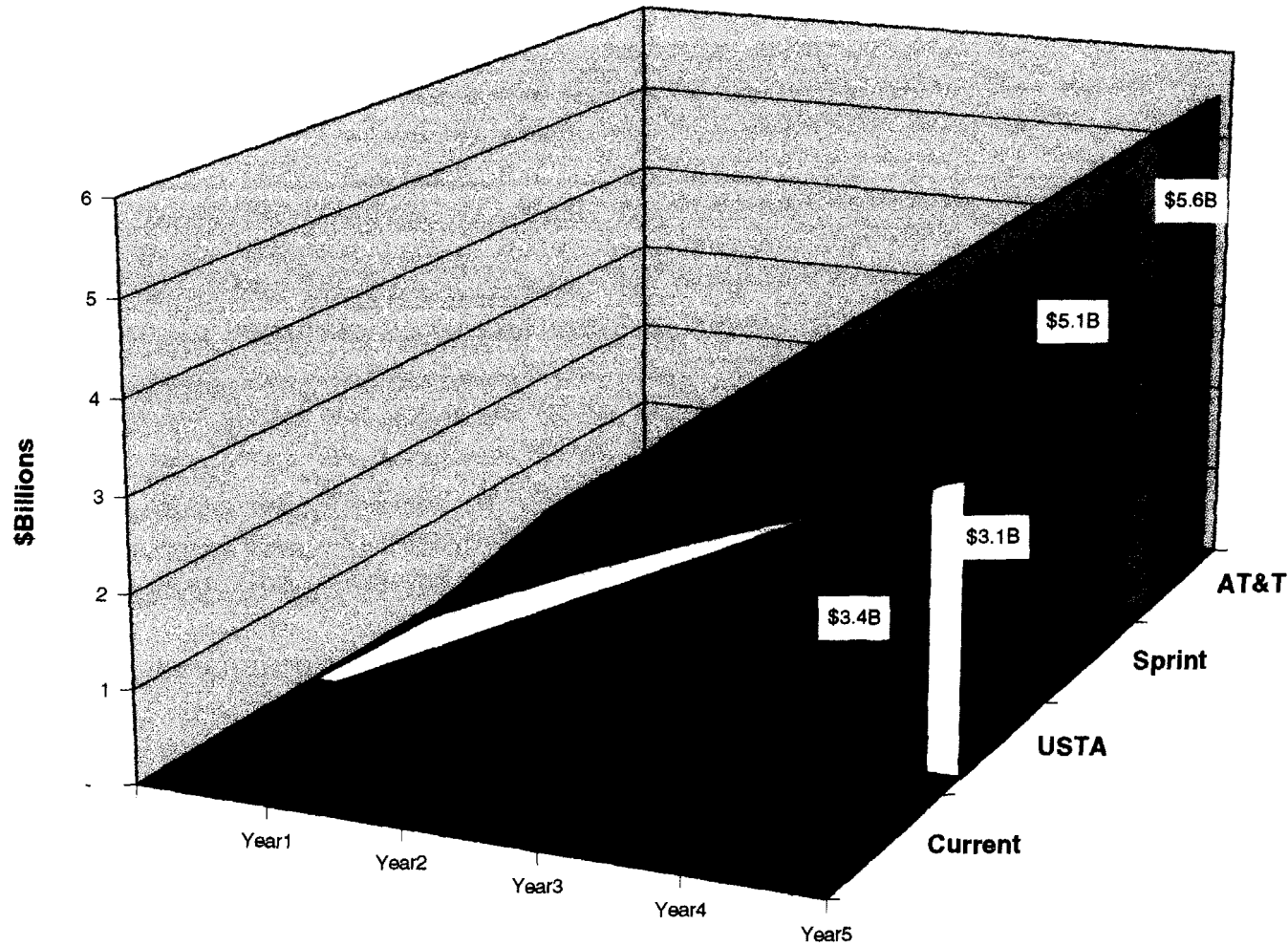|	
Makes consumers better off	• Assures substantial, permanent rate reductions (if the productivity factor is set at an appropriate level) • Insulates consumers from LEC competitive losses and investment and pricing decisions
Critical to promoting access/local competition	• Diminishes incentives for cross-subsidization • Eliminates regulatory "guarantee" that a LEC will recover all of its costs (including profits)

Establishes a framework that balances risks/rewards in a dynamic marketplace	• LECs bear risks of:
	  · *Capital recovery*
	  · *New Services*
	  · *Competitive losses*
	• LECs reap benefits of:
	  · *Innovation/new services*
	  · *Efficiency gains (greater than productivity offset)*
	  · *Greater (but not total) pricing flexibility*

Reduces the administrative complexity of price cap regulation	• Lessens the need for detailed regulatory intervention in competitive marketplace

Comparison of Price Cap Proposals

	Productivity	Sharing Range 50/50	100%	Upfront Rate Reduction
Current FCC Plan	3.3%	12.25-16.25%	> 16.25%	N/A
	4.3%	13.25-17.25%	> 17.25%	N/A
Sprint	3.3%	11.75-13.75%	> 13.75%	Approximately 2% industrywide (varies by LEC)
	3.9%	12.25-15.25%	> 15.25%	
	4.5%	None		
AT&T	5.1%	11.0-15.0%	> 15%	Approximately 1.6%
Original USTA Plan	2.5%	None		None
Revised USTA Plan	3.3%	12.25-16.25%	> 16.25%	None
	3.5% * (Rolling Average Productivity)	None		1.0% (PCI reduction)

* Initial productivity factor of 2.5%, and a 1% CPD, which would be phased out over 3 years.

Sprint Price Cap Reform Plan

Comparison of Price Cap Proposals

Value of Reductions

Current: X = 3.3%
USTA: X = 2.5%, 1% up-front, CPD phase-out (no-sharing option)
Sprint: X = 4.5%, 2% up-front (no-sharing option)
ATT: X = 5.1%, $322M up-front